Renosterberg Local Municipality
(Registration number NC075)
Annual financial statements
for the year ended June 30, 2019

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(Registration number NC075)
Annual Financial Statements for the year ended June 30, 2019

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Renosterberg Local Municipality is a local municipality performing the functions as set out in the Constitution, Act 105 of 1996.
Mayoral committee	
Executive Mayor	Mr J Olifant
Councillors	Mrs ME Bitterbos
	Mr JJ Niklaas
	Mrs SF Jantjies
	ME EG Bekkers
	Mr JMZ Posthumus
	Mr H Booysen
Grading of local authority	Category B as defined by the Municipal Structures Act, Act no.117 of 1998
Accounting Officer	Mr M Hoogbaard
Chief Finance Officer (CFO)	ME G September (Acting)
Registered office	555 School Street Petrusville 8770
Business address	School Street Petrusville 8770
Postal address	PO Box 112 Petrusville 8770
Bankers	Standard Bank of South Afica Limited
Auditors	Auditor-General South Africa
Attorneys	Balden, Vogel & Vennote Inc Sunil Narian Inc

General Information

Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003)
	Division of Revenue Act
	The Income Tax Act (Act no. 58 of 1962)
	Value Added Tax Act (Act no 89 of 1991)
	Municipal Structures Act (Act no. 117 of 1998)
	Municipal Systems Act (Act no. 32 of 2000)
	Municipal Planning and Performance Management Regulations
	Housing Act (Act no. 107 of 1997)
	Skills Development Levies Act (Act no. 9 of 1999)
	Employment Equity Act (Act no. 55 of 1998)
	Unemployment Insurance Act (Act no. 30 of 1966)
	Basic Conditions of Employment Act (Act no. 75 of 1997)
	Supply Chain Management Regulations, 2005
	Disaster Management Act of 2016
	Spatial Planning and Land Use Management Act (Act 16 of 2013)
	Property Rates Act 6 of 2004

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers and the Minister of Corporative Governance determination in accordance with this Act.

The annual financial statements set out on pages 5 to 81, which have been prepared on the going concern basis, were approved by the accounting officer on December 11, 2020 and were signed on its behalf by:

Mr T Loko
Administrator

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2019.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Renosterberg municipal area and operates principally in South Africa.

Net surplus of the municipality was R 4,446,126 (2018: deficit R 20,438,727).

2. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus of R 404,200,434 and that the municipality's total liabilities exceed its assets by R 404,200,434.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Furthermore management has reviewed the municipaltiy's cash flow forecast for the year ended 30 June 2018 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequete resources to continue it's operational existence for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding fro government as evident from the Equitable Share allocations published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the municipality to the going concern assumption refer to note 42.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Mr. S. Dick (Acting)	South African	Resigned Friday, 03 January 2020
Mr M Hoogbaard	South Africa	Appointed Monday, 06 January 2020

7. Auditors

Auditor-General South Africa will continue in office for the next financial period.

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	4	25,397	25,397
Other receivables from exchange transactions	5	323,567	323,567
Receivables from non-exchange transactions	6	2,322,503	568,180
VAT receivable	7	9,281,495	11,087,968
Receivables from exchange transactions	3	9,141,160	5,450,205
Cash and cash equivalents	2	673,798	-
		21,767,920	**17,455,317**
Non-Current Assets			
Investment property	8	25,151,884	25,151,884
Property, plant and equipment	9	508,473,347	500,547,535
Intangible assets	10	271,991	271,991
		533,897,222	**525,971,410**
Total Assets		**555,665,142**	**543,426,727**
Liabilities			
Current Liabilities			
Finance lease obligation	13	21,203	21,203
Payables from exchange transactions	15	118,191,505	109,854,235
Consumer deposits	11	562,531	442,429
Employee benefit obligation	12	66,000	66,000
Unspent conditional grants and receipts	17	606,760	690,760
Provisions	16	-	2,243,288
Long service awards	14	164,000	164,000
Bank overdraft	2	-	581,091
		119,611,999	**114,063,006**
Non-Current Liabilities			
Employee benefit obligation	12	1,209,000	1,209,000
Provisions	16	29,365,709	27,122,421
Long service awards	14	1,278,000	1,278,000
		31,852,709	**29,609,421**
Total Liabilities		**151,464,708**	**143,672,427**
Net Assets		**404,200,434**	**399,754,300**
Accumulated surplus	18	404,200,434	399,754,300

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	10,796,232	12,205,484
Rental of facilities and equipment	20	476,942	393,459
Other income	21	87,543	41,442
Interest received - investment	22	-	226,267
Fair value adjustments		-	249,029
Total revenue from exchange transactions		**11,360,717**	**13,115,681**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	3,657,550	3,535,661
Transfer revenue			
Government grants & subsidies	24	38,825,000	51,786,587
Fines, Penalties and Forfeits		3,000	11,916
Total revenue from non-exchange transactions		**42,485,550**	**55,334,164**
Total revenue	25	**53,846,267**	**68,449,845**
Expenditure			
Employee related costs	26	(20,209,756)	(19,618,788)
Remuneration of councillors	27	(2,877,580)	(2,720,118)
Depreciation and amortisation	28	(7,349,162)	(15,354,694)
Impairment loss/ Reversal of impairments		-	(3,696,053)
Finance costs	29	(295)	(10,167,818)
Debt Impairment	30	(522,269)	(9,798,892)
Repairs and maintenance	31	113,374	(196,238)
Bulk purchases	32	(7,145,772)	(10,025,820)
Contracted services	33	(4,633,303)	(8,868,178)
Actuarial losses		-	(513,669)
General Expenses	34	(6,775,378)	(7,928,304)
Total expenditure		**(49,400,141)**	**(88,888,572)**
Surplus (deficit) for the year		**4,446,126**	**(20,438,727)**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2017	**420,193,027**	**420,193,027**
Restated* defcit for the year	(20,438,727)	(20,438,727)
Total changes	(20,438,727)	(20,438,727)
Restated* Balance at July 1, 2018	**399,754,308**	**399,754,308**
Deficit for the year	4,446,126	4,446,126
Total changes	4,446,126	4,446,126
Balance at June 30, 2019	**404,200,434**	**404,200,434**

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		11,050,744	15,128,573
Grants		38,825,000	50,234,347
Interest income		-	226,267
		49,875,744	65,589,187
Payments			
Employee costs		(24,874,711)	(20,184,741)
Suppliers		(8,471,182)	(25,475,446)
		(33,345,893)	(45,660,187)
Net cash flows from operating activities	35	**16,529,851**	**19,929,000**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(20,341,930)	(20,341,930)
Cash flows from financing activities			
Finance lease payments		(47,857)	(47,857)
Net increase/(decrease) in cash and cash equivalents		**(3,859,936)**	**(460,787)**
Cash and cash equivalents at the beginning of the year		(581,084)	(120,295)
Cash and cash equivalents at the end of the year	2	**(4,441,020)**	**(581,082)**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	-	-	-	10,796,232	**10,796,232**	Note 49
Rental of facilities and equipment	-	-	-	476,942	**476,942**	Note 49
Other income - (rollup)	-	-	-	87,543	**87,543**	Note 49
Total revenue from exchange transactions	**-**	**-**	**-**	**11,360,717**	**11,360,717**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	-	-	-	3,657,550	**3,657,550**	Note 49
Transfer revenue						
Government grants & subsidies	-	-	-	38,825,000	**38,825,000**	Note 49
Fines, Penalties and Forfeits	-	-	-	3,000	**3,000**	Note 49
Total revenue from non-exchange transactions	**-**	**-**	**-**	**42,485,550**	**42,485,550**	
Total revenue	**-**	**-**	**-**	**53,846,267**	**53,846,267**	
Expenditure						
Personnel	-	-	-	(20,209,756)	**(20,209,756)**	Note 49
Remuneration of councillors	-	-	-	(2,877,580)	**(2,877,580)**	Note 49
Depreciation and amortisation	-	-	-	(7,349,162)	**(7,349,162)**	Note 49
Finance costs	-	-	-	(295)	**(295)**	Note 49
Debt Impairment	-	-	-	(522,269)	**(522,269)**	Note 49
Repairs and maintenance	-	-	-	113,374	**113,374**	Note 49
Bulk purchases	-	-	-	(7,145,772)	**(7,145,772)**	Note 49
Contracted Services	-	-	-	(4,633,303)	**(4,633,303)**	Note 49
General Expenses	-	-	-	(6,775,378)	**(6,775,378)**	Note 49
Total expenditure	**-**	**-**	**-**	**(49,400,141)**	**(49,400,141)**	
Surplus before taxation	**-**	**-**	**-**	**4,446,126**	**4,446,126**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**-**	**-**	**4,446,126**	**4,446,126**	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	25,397	**25,397**	
Other receivables from exchange transactions	-	-	-	323,567	**323,567**	
Receivables from non-exchange transactions	-	-	-	2,322,503	**2,322,503**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
VAT receivable	-	-	-	9,281,495	**9,281,495**	
Consumer debtors	-	-	-	9,141,160	**9,141,160**	
Cash and cash equivalents	-	-	-	673,798	**673,798**	
	-	**-**	**-**	**21,767,920**	**21,767,920**	
Non-Current Assets						
Investment property	-	-	-	25,151,884	**25,151,884**	
Property, plant and equipment	-	-	-	508,473,347	**508,473,347**	
Intangible assets	-	-	-	271,991	**271,991**	
	-	**-**	**-**	**533,897,222**	**533,897,222**	
Total Assets	**-**	**-**	**-**	**555,665,142**	**555,665,142**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	21,203	**21,203**	
Payables from exchange transactions	-	-	-	118,191,502	**118,191,502**	
Consumer deposits	-	-	-	562,531	**562,531**	
Employee benefit obligation	-	-	-	66,000	**66,000**	
Unspent conditional grants and receipts	-	-	-	606,760	**606,760**	
Long service awards	-	-	-	164,000	**164,000**	
	-	**-**	**-**	**119,611,996**	**119,611,996**	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	1,209,000	**1,209,000**	
Provisions	-	-	-	29,365,709	**29,365,709**	
Long service awards	-	-	-	1,278,000	**1,278,000**	
	-	**-**	**-**	**31,852,709**	**31,852,709**	
Total Liabilities	**-**	**-**	**-**	**151,464,705**	**151,464,705**	
Net Assets	**-**	**-**	**-**	**404,200,437**	**404,200,437**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	-	404,200,437	**404,200,437**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	-	-	-	-		-	3,657,550		3,657,550	DIV/0 %	DIV/0 %
Service charges	-	-	-	-		-	10,796,232		10,796,232	DIV/0 %	DIV/0 %
Transfers recognised - operational	-	-	-	-		-	26,112,000		26,112,000	DIV/0 %	DIV/0 %
Other own revenue	-	-	-	-		-	567,485		567,485	DIV/0 %	DIV/0 %
Total revenue (excluding capital transfers and contributions)	**-**	**-**	**-**	**-**		**-**	**41,133,267**		**41,133,267**	**DIV/0 %**	**DIV/0 %**
Employee costs	-	-	-	-	-	-	(20,209,756)	-	(20,209,756)	DIV/0 %	DIV/0 %
Remuneration of councillors	-	-	-	-	-	-	(2,877,580)	-	(2,877,580)	DIV/0 %	DIV/0 %
Debt impairment	-	-	-			-	(522,269)	-	(522,269)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	-	-	-			-	(7,349,162)	-	(7,349,162)	DIV/0 %	DIV/0 %
Finance charges	-	-	-	-	-	-	(295)	-	(295)	DIV/0 %	DIV/0 %
Materials and bulk purchases	-	-	-	-	-	-	(7,145,772)	-	(7,145,772)	DIV/0 %	DIV/0 %
Other expenditure	-	-	-	-	-	-	(11,295,307)	-	(11,295,307)	DIV/0 %	DIV/0 %
Total expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**(49,400,141)**	**-**	**(49,400,141)**	**DIV/0 %**	**DIV/0 %**
Surplus/(Deficit)	**-**	**-**	**-**	**-**		**-**	**(8,266,874)**		**(8,266,874)**	**DIV/0 %**	**DIV/0 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	12,713,000		12,713,000	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**-**	**-**	**-**	**-**		**-**	**4,446,126**		**4,446,126**	**DIV/0 %**	**DIV/0 %**
Surplus/(Deficit) for the year	**-**	**-**	**-**	**-**		**-**	**4,446,126**		**4,446,126**	**DIV/0 %**	**DIV/0 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand and the amounts have been rounded off to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

1.4 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the derecognition or disposal of investment property are the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of derecognition or disposal.

Gains or losses arising from the derocognition or disposal of investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Purchase software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

Sunsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Accounting Policies

1.5 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Land, except for landfill and quary sites, is not depreciated as it has indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner it is intended by management.

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owner assets or, where shorter, the term of the relevant lease.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		indefinite
Buildings - Operational buildings	Straight line	5, 15 - 80 years, some indefinite
Buildings - Housing	Straight line	5, 15 - 100 years, some indefinite
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 - 7 years
Office equipment	Straight line	3 - 5 years
IT equipment	Straight line	3 - 5 years
Infrastructure	Straight line	5-100 years, some indefinite
Community Assets - Community facilities	Straight line	5-100 years, some indefinite
Community Assets - Sport and recreation facilities	Straight line	5-100 years, some indefinite
Bins and containers	Straight line	5 -7 years
Landfill sites	Straight line	10 - 20 years
Specialised vehicles	Straight line	5 - 7 years
Infrastructure Asset - Wastewater network	Straight line	12 - 100 years, some indefinite

Accounting Policies

1.5 Property, plant and equipment (continued)

Infrastructure Asset - Water network	Straight line	7 - 100 years, some indefinite
Infrastructure Asset - Roads and stormwater network	Straight line	5 - 100 years, some indefinite
Infrastructure Asset - Electricity network	Straight line	10 - 60 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Derecognition:

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property plant and equipment, these are disclosedin note 36. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initialy recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Subsequent measurement:

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earilier of the date that the asset is classified as held for sale (or included in disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discountinued Operations and the date that the asset is dercognised.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Accounting Policies

1.7 Intangible assets (continued)

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 years
Servitudes	Straight line	Indefinite

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or

Accounting Policies

1.8 Financial instruments (continued)

- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

Accounting Policies

1.8 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loan1	Financial asset measured at amortised cost
Loan2	Financial asset measured at amortised cost
Loan3	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Loan2	Financial liability measured at amortised cost
Loan3	Financial liability measured at amortised cost
Other receivables1	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

1.8 Financial instruments (continued)

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

1.8 Financial instruments (continued)

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents:

Cash and cash equivalents comprise of cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initialy ans subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is readily convertible into cash amounts for a period exceeding three months, these are treated as investments.

Accounting Policies

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

1.10 Inventories (continued)

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

1.12 Employee benefits (continued)

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municpality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.12 Employee benefits (continued)

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.12 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-endfor each employee.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

1.13 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an municipality:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in municipality in combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

1.13 Provisions and contingencies (continued)

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.15 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Pre-paid electricity:

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 Sep – 30 April) and winter (1 May to 31 Aug).The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.16 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.16 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Government grants

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

When the presentation or classification of an item in the annual financial statements are amended, comparative amounts are reclassified.

1.20 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.20 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

1.25 Segment information (continued)

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.26 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or mistatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.28 Related parties

The municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:
- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the municipality

(a) A person or a close member of that person’s family is related to the municipality if that person
- has control or joint control over the municipality.
- has significant influence over the municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the municipality.
- is a member of the management of the municipality or its controlling entity.

(b) An entity is related to the municipality if any of the following conditions apply:
- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
- both entities are joint ventures of the same third party.
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the municipality or an entity related to the municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in (a).
- a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Accounting Policies

1.28 Related parties (continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality. A person is considered to be a close member of the family of another person if they:

(a) are married or live together in a relationship similar to a marriage; or
(b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the municipality, including:

(a) all members of the governing body of the municipality;
(b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the municipality;
(c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the municipality; and
(d) the senior management team of the municipality, including the chief executive officer or permanent head of the municipality, unless already included in (a).

Management personnel include:

(a) All directors or members of the governing body of the municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
(b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting municipality being the Municipal Manager, Chief Financial Officer an all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the municipality.

The municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.30 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a bi-monthly basis.

Accounting Policies

1.31 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	380,141	-
Short-term deposits	293,657	2,496
Bank overdraft	-	(583,579)
	673,798	**(581,083)**

Current assets	673,798	-
Current liabilities	-	(581,083)
	673,798	**(581,083)**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
F1+	373,807	(581,023)

Short-term deposits

Standard Bank - Money markert account - 04 891 090 2 001				
Standard Bank - Money markert account - 04 891 091 0 001	368	-	-	368
Standard Bank - Money markert account - 04 891 090 2 001	-	-	-	-
Standard Bank - Money markert account - 04 890 965 3 001	-	-	-	646
Standard Bank - Money markert account - 04 890 965 3 001	-	-	-	646
Standard Bank - Money markert account - 04 891 095 3 001	14	-	-	14
Standard Bank - Money markert account - 04 890 950 5 001	-	-	-	209
Standard Bank - Money markert account - 04 890 902 5 002	-	-	-	9
Standard Bank - Money markert account - 04 891 100 3 003	293,275	-	-	1,250
	293,657	**-**	**-**	**2,496**

2. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
Standard Bank - Money markertaccount - 04 891 091 0 001	380,141	(583,579)	(153,599)	380,141	(583,579)	(153,599)

3. Receivable from exchange transactions

	2019	2018
Gross balances		
Electricity	17,953,657	16,677,999
Water	18,351,007	18,285,202
Sewerage	9,941,375	8,667,103
Refuse	6,269,069	5,399,551
Sundry services	2,425,654	2,219,952
	54,940,762	**51,249,807**
Less: Allowance for impairment		
Electricity	(15,024,921)	(15,024,921)
Water	(17,164,220)	(17,164,220)
Sewerage	(6,757,935)	(6,757,935)
Refuse	(4,849,826)	(4,849,826)
Sundry services	(2,002,700)	(2,002,700)
	(45,799,602)	**(45,799,602)**
Net balance		
Electricity	2,928,736	1,653,078
Water	1,186,787	1,120,982
Sewerage	3,183,440	1,909,168
Refuse	1,419,243	549,725
Sundry services	422,954	217,252
	9,141,160	**5,450,205**
Electricity		
Current (0 -30 days)	-	385,291
31 - 60 days	-	309,123
61 - 90 days	-	381,240
91 - 120 days	2,928,736	15,602,345
121 - 365 days	-	(15,024,921)
	2,928,736	**1,653,078**
Water		
Current (0 -30 days)	-	383,835
31 - 60 days	-	320,599
61 - 90 days	-	342,301
121 - 365 days	1,186,787	17,238,467
> 365 days	-	(17,164,220)
	1,186,787	**1,120,982**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

3. Receivable from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	-	157,913
31 - 60 days	-	158,039
61 - 90 days	-	168,507
121 - 365 days	3,183,440	8,182,644
> 365 days	-	(6,757,935)
	3,183,440	**1,909,168**

Refuse		
Current (0 -30 days)	-	112,781
31 - 60 days	-	109,146
61 - 90 days	-	114,507
121 - 365 days	1,419,243	5,063,117
> 365 days	-	(4,849,826)
	1,419,243	**549,725**

Sundry services		
Current (0 -30 days)	-	28,182
31 - 60 days	-	28,368
61 - 90 days	-	20,894
121 - 365 days	422,954	2,141,791
> 365 days	-	(2,001,983)
	422,954	**217,252**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	-	950,216
31 - 60 days	-	848,491
61 - 90 days	-	883,280
91 - 120 days	-	45,927,774
	-	**48,609,761**

Industrial/ commercial		
Current (0 -30 days)	-	239,720
31 - 60 days	-	183,483
61 - 90 days	-	357,853
91 - 120 days	-	8,997,905
	-	**9,778,961**

National and provincial government		
Current (0 -30 days)	-	58,191
31 - 60 days	-	63,294
61 - 90 days	-	274,917
91 - 120 days	-	6,931,255
	-	**7,327,657**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

3. Receivable from exchange transactions (continued)

Total		
Current (0 -30 days)	-	1,248,126
31 - 60 days	-	1,095,268
61 - 90 days	-	1,516,051
121 - 365 days	54,940,762	47,390,362
	54,940,762	51,249,807
Less: Allowance for impairment	(45,799,602)	(45,799,602)
	9,141,160	**5,450,205**

Less: Allowance for impairment		
91 days +	(45,799,602)	(45,799,602)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(45,799,602)	(37,450,870)
Contributions to allowance	-	(8,348,732)
	(45,799,602)	**(45,799,602)**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Terms receivables from exchange transactions

Receivables from exchange transactions are payable within 30 days. The credit period granted is considered to be consistent with the terms used in the public sector, through established practoces and legislation. Discounting of receivables from exchange transaction on initial reccognition is not deemed necessary.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R - (2018: R 5,450,205) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	-	5,450,205

Receivables from exchange transactions impaired

As of June 30, 2019, receivables from exchange transactions of R - (2018: R 45,799,602) were impaired and provided for.

The ageing of these receivables is as follows:

3 to 6 months	-	45,799,602

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

4. Inventories

Water at cost	25,397	25,397
Inventories recognised as an expense during the year	-	9,209

Inventory pledged as security

No inventory is pledged as security for any financial liability at year-end.

5. Other receivables from exchange transactions

Sundry receivables	323,567	323,567

6. Receivables from non-exchange transactions

Property rates	2,322,503	568,180

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of receivables from non-exchange transactions

Property rates debtors are payable within 30 days. This credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of property rates debtors is not performed in terms of GRAP 104 on initial recognition.

Consumer receivables from non-exchange transactions (rates)

Property rates: Ageing

Current (0 - 30 days)	-	180,124
31 - 60 days	-	169,992
61 - 90 days	-	488,602
91 days +	-	9,237,785
Less: Allowance for impairment	-	(9,516,323)
	-	**560,180**

Receivables from non-exchange transactions impaired

As of June 30, 2019, other receivables from non-exchange transactions of R - (2018: R 9,516,323) were impaired and provided for.

The ageing of these receivables is as follows:

3 to 6 months	-	9,516,323

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not evaluated for impairment. As 30 June 2019, R 0 (2018: R 560 180) were past due but not impaired.

Rand	-	560,180

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(12,055,401)	(9,516,323)
Provision for impairment	-	(2,539,078)
	(12,055,401)	**(12,055,401)**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

7. VAT receivable

Heading		
VAT receivable	9,281,495	11,087,968

VAT is payable on the cash basis.

The VAT 201 returns for the period under review were submitted late.

8. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25,151,884	-	25,151,884	25,151,884	-	25,151,884

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	25,151,884	25,151,884

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	24,902,855	249,029	25,151,884

	2019	2018
Fair value of investment properties	-	25,151,884

Pledged as security

There are no investment properties pledged as security.

There are no restrictions on the realisability of investment property, the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the fair value establishment for investment property was year-end 30 June 2014. The fair value establisment was performed by an independent professional valuer namely Mr. Z van der Merwe SACPVP from I@T Consulting (Pty) Ltd.
I@T Consulting (Pty) Ltd is not connected to the municipality.
Investment property fair value establishment will be performed independently every 5 years.
Fair value establishment is based current market conditions.

9. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	128,200,899	-	128,200,899	128,200,899	-	128,200,899
Buildings	30,582,153	(20,949,953)	9,632,200	30,582,153	(20,949,953)	9,632,200
Infrastructure assets	519,890,937	(228,216,693)	291,674,244	498,286,147	(228,216,693)	270,069,454
Community assets	154,470,597	(105,163,097)	49,307,500	154,470,597	(105,163,097)	49,307,500
Other property, plant and equipment	4,802,416	(3,585,730)	1,216,686	4,802,416	(3,585,730)	1,216,686
Leased office equipment	330,578	(277,200)	53,378	330,578	(277,200)	53,378
Capital work in progress	28,388,440	-	28,388,440	42,067,418	-	42,067,418
Total	**866,666,020**	**(358,192,673)**	**508,473,347**	**858,740,208**	**(358,192,673)**	**500,547,535**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	128,200,899	-	-	-	-	128,200,899
Buildings	9,632,200	-	-	-	-	9,632,200
Infrastructure assets	270,069,454	34,070,669	-	(10,023,159)	(2,442,720)	291,674,244
Community assets	49,307,500	-	-	-	-	49,307,500
Other property, plant and equipment	1,216,686	-	-	-	-	1,216,686
Leased office equipment	53,378	-	-	-	-	53,378
Work in progress	42,067,418	22,327,168	(36,006,146)	-	-	28,388,440
	500,547,535	**56,397,837**	**(36,006,146)**	**(10,023,159)**	**(2,442,720)**	**508,473,347**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	128,200,899	-	-	-	-	-	128,200,899
Buildings	10,622,398	-	-	-	(787,998)	(202,200)	9,632,200
Infrastructure assets	246,639,188	-	-	35,896,146	(10,023,159)	(2,442,721)	270,069,454
Community assets	47,310,342	-	7,114,551	110,000	(4,176,372)	(1,051,021)	49,307,500
Other property, plant and equipment	1,502,963	-	-	-	(286,166)	(111)	1,216,686
Leased office equipment	68,830	-	-	-	(15,452)	-	53,378
Work in progress	57,731,634	20,341,930	-	(36,006,146)	-	-	42,067,418
	492,076,254	**20,341,930**	**7,114,551**	**-**	**(15,289,147)**	**(3,696,053)**	**500,547,535**

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2019	2018
Leased office equipment	53,378	53,378

Details of material assets per class

	2019	2018
carry value of land and buildings per classification at each reporting date:		
Land	-	128,200,899
Buildings	-	9,632,201
	-	**137,833,100**

	2019	2018
carry value of community assets per classification at each reporting date:		
Community facilities	-	31,679,386
Sports and recreation facilities	-	17,628,113
	-	**49,307,499**

	2019	2018
carry value of other assets per classification at each reporting date:		
Motor vehicles	-	578,351
Furniture and fittings	-	323,687
Office equipment	-	314,647
	-	**1,216,685**

Reconciliation of Work-in-Progress 2019

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	57,731,635	57,731,635
Additions/capital expenditure	19,556,177	19,556,177
Transferred to completed items	(36,006,146)	(36,006,146)
	41,281,666	**41,281,666**

10. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,090,665	(818,674)	271,991	1,090,665	(818,674)	271,991

Reconciliation of intangible assets - 2019

	Opening balance	Total
Computer software, other	271,991	271,991

10. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	337,538	(65,547)	271,991

Pledged as security

No intangible assets are pledged as security for any financial liability at year-end.

Restricted title

There are no intangible assets whose title is restricted.

There are no internally generated assets at reporting date.

There are no contractual commitments for the acquisition of intangible assets.

11. Consumer deposits

	2019	2018
Electricity and water	562,531	442,429

Deposits are paid by consumers for new electricity and water connections and are repaid when connections are terminated. Where consumers default on their payments the municipality can utilise deposits as payments for outstanding amounts.

No interest is paid on deposits held.

Management is of opinion that the carrying value of the deposits approximates the fair value.

The fair value of deposits were determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these emloyees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by ZAQEN Actuaries (Pty) Ltd. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes :
- Bonitas
- Keyhealth
- LA Health
- Fed Health
- Samwumed

The amounts recognised in the statement of financial position are as follows:

	2019	2018
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(1,275,000)	(1,275,000)
Non-current liabilities	(1,209,000)	(1,209,000)
Current liabilities	(66,000)	(66,000)
	(1,275,000)	**(1,275,000)**

The fair value of plan assets includes:

	2019	2018
The liability in respect of past service has been estimated as follows:		
South African equities	-	1,275,000
Assets used by the entity		

Changes in the present value of the defined benefit obligation are as follows:

	2019	2018
Opening balance	1,275,000	795,000
Net expense recognised in the statement of financial performance	-	480,000
	1,275,000	**1,275,000**

Net expense recognised in the statement of financial performance

	2019	2018
Current service cost	-	15,000
Past service cost	-	(119,000)
Interest cost	-	78,000
Actuarial (gains) losses	-	506,000
	-	**480,000**

Calculation of actuarial gains

	2019	2018
Actuarial (gains) losses – Obligation	-	506,000

12. Employee benefit obligations (continued)

Key assumptions used

Expected rate of return on reimbursement rights	58 years
Actual return on reimbursement rights	63 years

GRAP 25 defines the determination of the Discount rate assumption to be used as follows. “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Financial Variable	Assumed Value 30-06-2018 (Current Valuation)	Assumed Value 30-06-2017 (Preceding Valuation)
Discount Rate	Yield Curve	1Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	1Difference between nominal and yield curves
Medical Aid Contribution Inflation	CPI+1%	1CPI+1%
Net Effective Discount Rate	Yield curve based	1Yield curve based

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Plan assets	-	1,275,000	795,000	997,000	1,754,000

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Medical benefits

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The Municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by ZAQEN Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Employee benefit obligations (continued)

Long service awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long service award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by ZAQEN Actuaries.

13. Finance lease obligation

	2019	2018
Minimum lease payments due		
- within one year	-	21,667
	-	21,667
less: future finance charges	-	(464)
Present value of minimum lease payments	**-**	**21,203**
Present value of minimum lease payments due		
- within one year	-	21,203
Current liabilities	21,203	21,203

It is the municipality policy to lease certain property, plant and equipment under finance leases.

The lease terms are 5 years or less and the average effective borrowing rate was 8% (2018: 8.%).

Interest rates are linked to prime to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality has the option to purchase the leased assets for a nominal amount at conclusion of the lease agreement.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

14. Long service awards

The municipality operates as unfunded deficit benefit plan for all its employees. Under the plan, a Long-service award is payable and extra leave is accrued after 5 years of continuous service and every 5 years thereafter to employees, from 10 years of service to 45 years of service.

This is the present value of the total Long-term service awards expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected Long-term service awards for current employees

The most recent actuarial valuations on the Long-term service awards were carried out at 30 June 2019 by ZAQEN Actuaries (Pty) Ltd

Membership Data	Number of Active employees	Salary Weighted average age (Years)	Weighted average past service (Years)
Male	65	46	11
Female	29	41	10
	94	**44**	**11**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

14. Long service awards (continued)

Reconciliation of long term service awards - 2019	Opening Balance	Actuarial (Gains)\Losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long term service award	1,442,000	-	-	-	-	1,442,000
Subtotal	1,442,000	-	-	-	-	1,442,000
	1,442,000	**-**	**-**	**-**	**-**	**1,442,000**

Reconciliation of long term service awards - 2018	Opening Balance	Actuarial (Gains)\Losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long term service award	1,188,000	72,000	(82,000)	127,000	137,000	1,442,000
Subtotal	1,188,000	72,000	(82,000)	127,000	137,000	1,442,000
	1,188,000	**72,000**	**(82,000)**	**127,000**	**137,000**	**1,442,000**

Non - current liabilites	1,278,000	1,278,000
Current liabilities	164,000	164,000
	1,442,000	**1,442,000**

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatable. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

14. Long service awards (continued)

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:.

Financial Variables	**2019**	**2018**
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based

Present value of unfunded obligations:		
Present value of unfunded obligations	(1,442,000)	(1,442,000)
Reconciliation of present value of fund obligations		
Present value of fund obligations at the beginning of the year	1,188,000	1,188,000
Current service costs	127,000	127,000
Benefits paid	(82,000)	(82,000)
Interest costs	137,000	137,000
Actuarial (gains) / losses	72,000	72,000
	1,442,000	**1,442,000**

Actuarial gain:

The main reasons for the actuarial gains can be attributed to the following factors:

1. **Changes in economic variables** – We used the nominal and real zero curves as at 30 June 2019 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. As a result of the interest rates, bond yields and inflation figures changed significantly. This resulted in a **decrease** in liability of around **R 29 000**.

2. **Membership Changes** – Over the past year, there were various changes in membership data. This, together with some other smaller factors, resulted in an **increase** in liability of around **R 101,000**.

Sensitivity analysis:

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

– 20% increase/decrease in the assumed level of withdrawal rates;

– 1% increase/decrease in the Normal Salary cost inflation

14. Long service awards (continued)

Withdrawal rate:

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	1,515,000	1,442,000	1,376,000
Current Service Cost	171,000	160,000	151,000
Interest Cost	155,000	147,000	140,000

Normal salary inflation
The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

Normal salary inflation	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	1,366,000	1,442,000	1,526,000
Current Service Cost	151,000	160,000	171,000
Interest Cost	139,000	147,000	156,000

15. Payables from exchange transactions

	2019	2018
Trade payables	83,835,137	83,640,133
Payments in advance	2,381,730	3,082,191
Accrued leave pay	2,010,920	2,010,920
Accrued bonus	461,737	385,401
Salary control	10,920,691	4,949,646
Retentions payable	3,473,385	3,013,364
Suspense Accounts	15,107,905	12,772,580
	118,191,505	**109,854,235**

Included in the trade payables balance above is an amount of R 58 851 548 payable to Eskom. There was an arrangement entered into between the municipality and Eskom, however the arrangement was broken due to municipality not complying with the payment arrangements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Total
Environmental rehabilitation	29,365,709	29,365,709

Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	20,349,477	9,016,232	29,365,709

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any futher pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of National Environmental Management: Waste Act, Act 59 of 2008.

The expected timeframe for rehabilitation of the various landfill sites is between 0 to 28 years from the current period.

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site. As such a discount rate of 7.80% (2016 - 7.80%) p.a has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 30 June 2019.

The consumer price inflation of 8.8% (2017 - 6%) p.a is obtained from the differential between the long term market yields on the index linded bond (the R197 at 1.68% p.a) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.45% p.a).

Key financial assumptions used:	2019	2018
Discount rate	7.94 %	7.94 %
Inflation price inflation	8.80 %	8.80 %
	16.74 %	**16.74 %**

Non-current liabilities	29,365,709	27,122,421
Current liabilities	-	2,243,288
	29,365,709	**29,365,709**

Environmental rehabilitation provision

The provision relates to the future rehabilitation of the landfill sites in Phillipstown, Petrusville and Vanderkloof. The final rehabilitation is expected to take place in Petrusville in 2037.

Provision is made based on the net present value of the cost of rehabilitation. The cost factors as determined have been applied and projected at an inflation rate of 6% and discounted to the present value:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Library Grant (Provincial Government)	334,698	334,698
Municipal Infrastructure Grant	272,062	356,062
	606,760	**690,760**

Movement during the year

Balance at the beginning of the year	-	2,243,000
Receipts during the year	-	29,861,773
Income recognition during the year	-	(29,170,710)
Transfered to the national revenue fund	-	(2,243,303)
Undefined Difference	**606,760**	**-**
	606,760	**690,760**

The nature and extent of government grants and their conditions, restrictions and other contingencies attached to these government grants have to be fulfilled. Grant receipts with unfulfilled conditions are recognised in the annual financial statements as unspent conditional grants.

See note 24 for reconciliation of grants from National/Provincial Government.

The municipality did not fully complied with conditions attached to all grants received to the extent of revenue recognised. R 7 891 000 (2018: R 7 891 000) grants were withheld.

18. Accumulated surplus

Accumulated surplus	404,200,437	399,754,309

19. Service charges

Sale of electricity	6,167,290	4,717,639
Sale of water	1,538,914	4,538,945
Sewerage charges	1,847,279	1,794,406
Refuse removal	1,242,749	1,154,494
	10,796,232	**12,205,484**

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

20. Rental of facilities and equipment

Premises		
Premises	245,136	260,176
Facilities and equipment		
Rental of facilities	231,806	133,185
Rental of equipment	-	98
	231,806	**133,283**
	476,942	**393,459**

There were no contingent rentals arising from the above rentals.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Sundry income

Sundry revenue	87,543	41,442

22. Investment revenue

Interest revenue		
Unlisted financial assets	-	226,267

23. Property rates

Rates and taxes levied

Residential, business and government	2,274,957	2,296,255
Commercial	337,708	251,991
State	350,770	326,610
Small holdings and farms	694,115	660,805
	3,657,550	**3,535,661**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Residential Properties:

A general rate of 0,0066038 (2018: 0,0066038) is applied to property valuations to determine assessment rates. Rebates of R 15000.00 is given on residential property.

Business Properties:

A general rate of 0,0086093 (2018: 0,0086093) is applied to property valuations to determine assessment rates.

Agricultural Properties:

A general rate of 0,0015500 (2018: 0,0015500) is applied to property valuations to determine assessment rates. Rebates of 75% is given on agricultural property

Rates are levied monthly on property owners and are payable the end of each month. No interest is levied on rates outstanding.

24. Government grants and subsidies

Operating grants		
Equitable Share	22,237,000	20,201,999
Finance Management Grant	2,415,000	2,345,000
Library Grant (Provincial Government)	460,000	1,313,302
Extended Public Works Programme	1,000,000	1,000,000
Provincial Treasury Financial Support	-	4,341,773
National Treasury Audit Fees Subsidy	-	2,413,575
Capital grants		
Municipal Infrastructure Grant	5,213,000	7,170,938
Water Service Infrastructure Grant	5,500,000	10,000,000
Intergrated National Electrification Grant	2,000,000	3,000,000
	12,713,000	**20,170,938**
	38,825,000	**51,786,587**

Figures in Rand	2019	2018

24. Government grants and subsidies (continued)

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	16,588,000	31,584,588
Unconditional grants received	22,237,000	20,201,999
	38,825,000	**51,786,587**

Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable share

Current-year receipts	22,153,000	17,939,000
Unconditional grant - recognised revenue	(22,237,000)	(20,182,000)
Withheld current year	84,000	2,243,000
	-	-

Financial Management Grant

Current-year receipts	2,415,000	2,345,000
Conditions met - transferred to revenue	(2,415,000)	(2,345,000)
	-	-

The Financial Management Grant is a conditional grant paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Library Grant

Balance unspent at beginning of year	334,698	-
Current-year receipts	460,000	1,648,000
Conditions met - transferred to revenue	(460,000)	(1,313,302)
	334,698	**334,698**

Conditions still to be met - remain liabilities (see note 17).

The Department of Sport, Arts & Culture Grant is a conditional grant which was used for the development of libraries in the Renosterberg area.

24. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	356,062	2,129,000
Current-year receipts	5,213,000	7,527,000
Conditions met - transferred to revenue	(5,213,000)	(7,170,938)
Other	(84,000)	(2,129,000)
	272,062	**356,062**

Conditions still to be met - remain liabilities (see note 17).

The Municipal Infrastructure Grant (MIG) is a conditional grant to support municipal capital budgets to fund municipal infrastructure and to upgrade existing infrastructure, primarily benefiting poor households.

Water Service Infrastructure Grant

Current-year receipts	5,500,000	10,000,000
Conditions met - transferred to revenue	(5,500,000)	(10,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The Department of Water Affairs Grant is a conditional grant which was used for water personnel salaries in the Renosterberg area.

Expanded Public Works Programme Grant

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 17).

The EPWP grant was used for road infrastructure development in the Renosterberg area.

Provincial Treasury Financial Support Grant

Current-year receipts	-	4,341,773
Conditions met - transferred to revenue	-	(4,341,773)
	-	-

This grant is a conditional grant which was provided by Northern Cape Provincial Treasury to assit the municipality to find the compilation of GRAP compliant annual financial statements and fixed asset registers for the year ended 30 June 2015.

National Treasury Audit Fees Subsidy

Current-year receipts	-	2,413,575
Conditions met - transferred to revenue	-	(2,413,575)
	-	-

Conditions still to be met - remain liabilities (see note 17).

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

25. Revenue

Service charges	10,796,232	12,205,484
Rental of facilities and equipment	476,942	393,459
Sundry Income	87,543	41,442
Interest received - investment	-	226,267
Property rates	3,657,550	3,535,661
Government grants & subsidies	38,825,000	51,786,587
Fines, Penalties and Forfeits	3,000	11,916
	53,846,267	**68,200,816**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	10,796,232	12,205,484
Rental of facilities and equipment	476,942	393,459
Sundry Income	87,543	41,442
Interest received - investment	-	226,267
	11,360,717	**12,866,652**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,657,550	3,535,661
Transfer revenue		
Government grants & subsidies	38,825,000	51,786,587
Fines, Penalties and Forfeits	3,000	11,916
	42,485,550	**55,334,164**

Rebates

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

26. Employee related costs

Basic	14,655,813	13,415,224
Bonus	1,259,655	1,038,624
Medical aid - municipal contributions	308,146	322,141
UIF	155,199	148,595
SDL	60,894	65,380
Other payroll levies	4,838	4,609
Leave pay provision charge	(815,953)	396,302
Defined contribution plans	-	23,000
Travel, motor car, accommodation, subsistence and other allowances	37,136	34,699
Overtime payments	888,049	942,632
Acting allowances	417,954	267,493
Housing benefits and allowances	941,168	920,053
Pension - municipal contributions	2,296,857	2,040,036
	20,209,756	**19,618,788**

Remuneration of the Former Municipal Manager - NG Veli (Acting)

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee related costs (continued)

Remuneration of the Municipal Manager - S Dick (Acting)

Annual Remuneration	-	659,260
Contributions to UIF, Medical and Pension Funds	-	116,137
	-	**775,397**

The acting municipal manager is also the director of technical services.

Remuneration of the Chief Financial Officer - G September

Annual Remuneration	-	319,157
Contributions to UIF, Medical and Pension Funds	-	42,671
	-	**361,828**

Remuneration of the Director Corporate Services - M Mthini

Annual Remuneration	-	255,198
Contributions to UIF, Medical and Pension Funds	-	4,435
	-	**259,633**

Key Management Personnel

There are no post-employment or termination benefits payable to them at the end of the contract period.

Remuneration of the Former Chief Finance Officer - D Molaole (Acting)

Other	-	294,335

The Former Acting CFO was seconded from the Department of Corporate Governance and Traditional Affairs (The Department). According to the secondment agreement, the department is responsible for his remuneration, and the municipality will only bear the traveling costs he incures for his services at the municipality.

27. Remuneration of councillors

Executive Major	868,724	833,201
Councillors	1,843,600	1,794,136
	2,712,324	**2,627,337**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

27. Remuneration of councillors (continued)

Remuneration of the Mayor

Annual Remuneration	-	689,087
Car Allowance	-	158,671
Performance Bonuses	-	20,868
Contributions to UIF, Medical and Pension Funds	-	98
	-	**868,724**

Remuneration of full-time Councillors

Annual Remuneration	-	799,659
Car Allowance	-	169,778
Performance Bonuses	-	62,604
Contributions to UIF, Medical and Pension Funds	-	295
	-	**1,032,336**

Remuneration of part-time Councillors

Annual Remuneration	-	622,365
Car Allowance	-	123,583
Performance Bonuses	-	62,604
Contributions to UIF, Medical and Pension Funds	-	2,712
	-	**811,264**

In-kind benefits

The Councillor occupying the position of Mayor in a full-time capacity.

The Mayor has an office at the municipality and is provided with secretarial support at the expense of the municipality.

28. Depreciation and amortisation

Property, plant and equipment	7,349,162	15,289,147
Intangible assets	-	65,547
	7,349,162	**15,354,694**

29. Finance costs

Trade and other payables	-	7,870,347
Finance leases	-	4,134
Provision for landfill rehabilitation	295	2,293,337
	295	**10,167,818**

30. Debt impairment

Debt impairment	-	-
Contributions to debt impairment provision	522,269	9,798,892
Bad debts written off	-	-
	522,269	**9,798,892**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

31. Repairs and maintenance

Heading		
Buildings	150,503	136,074
Infrastructure	8,350	241,485
Other assets	37,384	53,073
	196,237	**430,632**

32. Bulk purchases

Electricity	7,145,772	9,775,064
Water	-	250,756
	7,145,772	**10,025,820**

Bulk purchases are commodities not generated by the municipality. These commodities are distributed in the municipal area for resale to consumers. Electricity is purchased from Eskom whilst water is purchased from the Department of Water Affairs.

33. Contracted services

Presented previously		
Other Contractors	4,633,303	8,868,178

34. General expenses

Advertising	-	39,487
Auditors remuneration	400,000	1,841,306
Bank charges	204,555	160,531
Hire	250,798	214,188
Insurance	597,384	522,639
IT expenses	73,710	166,223
Fuel and oil	340,837	404,603
Postage and courier	44,754	103,989
Printing and stationery	144,498	227,623
Protective clothing	43,863	194,579
Subscriptions and membership fees	-	500,000
Telephone and fax	2,870,522	2,094,765
Travel and subsistence	1,451,128	1,179,242
Chemicals	353,329	279,129
	6,775,378	**7,928,304**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. Cash generated from operations

Surplus (deficit)	4,446,126	(20,438,727)
Adjustments for:		
Depreciation and amortisation	7,349,162	15,354,694
Fair value adjustments	-	(249,029)
Impairment deficit	-	3,696,053
Debt impairment	522,269	9,798,892
Movements in retirement benefit assets and liabilities	-	734,000
Movements in provisions	-	1,901,681
Changes in working capital:		
Inventories	-	(174)
Consumer debtors	(4,213,224)	(2,301,226)
Other receivables from non-exchange transactions	(1,754,323)	1,241,835
Payables from exchange transactions	8,337,266	20,651,124
VAT	1,806,473	(8,974,736)
Unspent conditional grants and receipts	(84,000)	(1,552,240)
Consumer deposits	120,102	66,853
	16,529,851	**19,929,000**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	17,887,030
Total capital commitments		
Already contracted for but not provided for	-	17,887,030

This expenditure will be financed from:

Total commitments		
Authorised capital expenditure	-	17,887,030

This committed expenditure relates to infrastructure and will be financed by government grants.

37. Contingencies

Contingent liabilities

The entity is being sued for some of the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain.

Contigent liabilities		
Litigation against municipality for damages/ destruction caused to various appliances in the applicants home as a result of an extended power surge - Grant T Paget	8,850	8,850
Litigation against the municipality as a result of damages to residisual property at an interest of 15.5% from 26 November 2013 - WJ Rossouw	280,000	280,000
	288,850	**288,850**

Jonathan van Heerden vs municipality - Litigations for the intial application was incorrect in that the building plans were approved in 2008, whilst the application for removal of restrictions was only done in 2009. Added to that, the municipality council did not have the authority to approve the application for the removal of restrictions, since such applications have not been appoved by the MEC.Thefore the council resolution was ultra vires - rendering all procedures that followed, illegal.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Shareholder with significant influence	Name (Proprietary) Limited
Members of key management	Refer to note26, 27 and 47

Related party transactions

Loan accounts - Owing (to) by related parties		
ABC (Proprietary) Limited	-	(4,341,773)
CDE (Proprietary) Limited	-	-

39. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

The correction of the error(s) results in adjustments as follows:

39.1. Prior period error - Misstatement of intangible assets:

During the period under review it was noted that the prior year's intangible assets were misstated with the recognition of servitutes. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in Intangible assets	(1,276,665)
Decrease in Accumulated (surplus) / deficit	1,273,325
Statement of Financial performance:	
Decrease in revenue from non-exchange transactions (donations received)	3,340

39.2. Prior period error - Misstatement of Land, buildings and community assets in the FAR

During the period under review it was noted that the prior year's community assets, land and buildings were misstated at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in land and buildings (cost)	(50,995,368)
Decrease in land and buildings (accumulated depreciation)	20,189,329
Increase in land	128,200,899
Increase in buildings (cost)	30,582,153
Increase in buildings (accumulated depreciation)	(19,959,755)
Decrease in community assets (cost)	(87,991,394)
Increase in community assets (accumulated deprecation)	(4,949,316)
Increase in accumulated (surplus) / deficit	(15,599,207)
Statement of Financial performance:	
Increase in depreciation and amortisation	522,659

39.3. Prior period error - Infrastructure assets misstated on the FAR

During the period under review it was noted that the prior year's investment property register was misstated at 30 June 2017. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of Financial position:	
Decrease in infrastructure assets (cost)	(12,884,667)
Decrease in infrastructure assets (accumulated depreciation)	5,729,840
Decrease in accumulated (surplus) / deficit	8,488,121
Statement of Financial performance:	
Decrease in depreciation and amortisation	(1,333,294)

39.4. Prior period error - Unspent conditional grants misstated

During the period under review it was noted that the prior year's unspent conditional grants were understated. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

39. Prior period errors (continued)

Statement of financial position	
Increase in unspent conditional grants	(2,243,000)
Decrease in opening accumulated surplus / (deficit)	2,125,000

Statement of financial performance	
Decrease in revenue from non-exchange transactions (Government grants & subsidies)	118,000

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	562,531	-	-	-
Employee benefit obligation	66,000	-	-	-
Payables from exchange transactions	118,191,505	-	-	-
Unspent conditional grants and receipts	606,760	-	-	-
	119,426,796	**-**	**-**	**-**

At 30 June 2017	Less than 1 year	Between 1 and 2 year	Between 2 and 5 years	Overs 5 years
Consumer deposits	442,429	-	-	-
Employee benefit obligation	66,000	-	-	-
Payables from exchange transactions	109,854,235	-	-	-
Uspent conditional grants	690,760	-	-	-
	111,053,424	**-**	**-**	**-**

40. Risk management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Foreign exchange risk

The municipality is not exposed to foreign exchange risk.

Price risk

The municipality is not exposed to price risk.

Notes to the Annual Financial Statements

41. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	323,567	323,567
Other receivables from non-exchange transactions	2,322,503	2,322,503
Consumer debtors	9,141,160	9,141,160
Cash and cash equivalents	673,798	673,798
	12,461,028	**12,461,028**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	118,191,505	118,191,505
Other liability 1	562,531	562,531
Other liability 2	606,760	606,760
	119,360,796	**119,360,796**

2018

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	323,567	323,567
Other receivables from non-exchange transactions	568,180	568,180
Consumer debtors	5,450,205	5,450,205
	6,341,952	**6,341,952**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	109,854,235	109,854,235
Other liability 1	442,429	442,429
Other liability 2	690,760	690,760
	110,987,424	**110,987,424**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

42. Going concern

We draw attention to the fact that at June 30, 2019, a material uncertainity exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

1) The municipalitiy's current liabilities exceeds it's current assets by R96 607 689 (2017: R78 114 464) which indicates a current ratio which is below the required norm of 1.5 - 2.
2) The municipality incurred a net defiict for the year under review of R20 438 727 (2017: R29 572 868), the major contributors to this change is increases in bulk purchases, impairments, finance costs and contracted services.
3) The provisions for rehabilitation of landfill sites and employee beenfit provisions are not cash backed.
4) The municipality experienced cash flow problems during the year, which resilted in major creditors not being paid timeously.
5) The consumer debtors days outstanding decreased to 328 days from (2017: 1,596 days).
6) Electricity distribution lossess (technical and non-technical) have decreased to 36% (2016: 69%) and the water distribution losses has decreased to 79% from (2017: 93%).

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for teh ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

43. Events after the reporting date

The municipality was placed under administration, under the section 139 of the South African Constitution, and an administrator was appointed from 1 September 2020 until the municipality holds by-elections on 11 November 2020.

There are no material financial impact arising from the administration.

44. Unauthorised expenditure

Unauthorised expenditure	-	159,673,654

Management performed a review of transactions and identified none of the transactions to be unauthorised expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

All the matters noted above will be presented to Council during the 2014/2015 financial year end so that they could be speedily resolved and concluded. The amount for the year under review will be investigated to get the exact amount and this will be presented to council for further action.

-
-

45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	20,308,645
Other 1	-	7,870,347
	-	**28,178,992**

Interest paid and penalties: The interest could not be avoided as the municipality had a cashflow problem at that stage, but will be tabled to Council for further action.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

45. Fruitless and wasteful expenditure (continued)

Details of fruitless & wasteful expenditure - Current year

Details of fruitless and wasteful expenditure - Current year	Disciplinary steps taken/criminal proceedings	
Interest on overdue account	No investigations have been undertaken to date.	7,870,347

Details of fruitless and wasteful expenditure - Previous year	Disciplinary steps taken/criminal proceedings	
Interest on overdue account	No investigations have been undertaken to date.	7,031,011
Fines and Penalties	No investigations have been undertaken to date.	158,305
		7,189,316

Analysis of expenditure awaiting condonation per age classification		
Current year	7,870,347	7,189,316
Prior years	20,308,645	13,119,329
	28,178,992	**20,308,645**

46. Irregular expenditure

Opening balance	-	121,634,483

Analysis of expenditure awaiting condonation per age classification

Prior years	-	121,634,483

Details of irregular expenditure - Previous year

	-

47. Additional disclosure in terms of Municipal Finance Management Act

Distribution losses - Water (Mega litres)

In the current year the water losses were 93.49% (2016 89.39%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Distribution loss - units	Units bought	Units sold	Units lost in distribution	%
2018	7,142,014	1,398,543	5,743,471	80

Average cost per kilo litre	0,04	
Loss in Rand Value		207,208

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2017	6,124,386	398,543	5,725,843	93

Average cost per kilo litre	0,04	
Loss in Rand value		223,828

The water distribution loss comprises of non-technical losses. For the 2016/17 financial year the distribution losses amounted to 93.49%. The annual water distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:
Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of water, tampering with meters and connections which form part of illegal consumption, faulty meters, etc.

Figures in Rand	2019	2018

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Distribution losses - Electricity (Kwh)

In the current year the energy losses were 68.83% (2016 56.34%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2018	7,800,628	2,431,348	5,369,280	69

Average cost per kWh unit	1,29	
Loss in Rand value		6,948,230

Distribution loss	Units bought	Units sold	Units lost in distribution	%
2017	7,298,246	3,186,655	4,111,592	56

Average cost per kWh unit	2,77	
Loss in Rand value		11,373,590

The electricity distribution loss comprises of technical and non-technical losses. For the 2016/17 financial year the distribution losses amount to 68.83%. The annual electricity distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:
Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tamperingwith meters and connections which form part of illegal consumption, faulty meters, etc.

Technical losses:
Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist throughout thef current, as a result there is a certain portion of electricity that is lost due to distribution.

Contributions to organised local government

	2019	2018
Opening balance	-	2,089,115
Current year subscription / fee	-	500,000
	-	**2,589,115**

Audit fees

	2019	2018
Opening balance	-	7,870,401
Current year subscription / fee	-	2,798,992
Amount paid - current year	-	(7,457,719)
Amount paid - previous years	-	(2,713,575)
	-	**498,099**

The balance unpaid represents the audit fee for the current year as well as the fees for previous financial years which have not yet been paid.

Figures in Rand	2019	2018

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

Opening balance	-	691,768
Current year subscription / fee	-	2,317,593
Amount paid - current year	-	(2,317,593)
Amount paid - previous years	-	(691,768)
	-	-

Pension and Medical Aid Deductions

Opening balance	-	1,174,848
Current year subscription / fee	-	2,313,110
Amount paid - current year	-	(2,313,110)
Amount paid - previous years	-	(1,174,848)
	-	-

VAT

VAT receivable	9,281,495	11,087,968

VAT output and VAT input receivables are shown in note 7.

All VAT returns for the 2017/2018 year submitted late.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2019:

48. Deviation from supply chain management regulations

Reason for deviation	Less than R 30 000	Between R 30 000 and R 100 000	Between R 100 000 and R 2 000 000
Sole Provider	26,772	47,368	-
Emergency	7,406	105,400	-
Other	235,354	91,463	108,380
	269,532	**244,231**	**108,380**

49. Budget differences

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The annual financial statements are prepared using the nature of expenses in the statement of financial performance. The approved budget covers the fiscal period from 1 July 2016 to 30 June 2017.

Changes from approved budget to final budget are the result of reallocations and shifting within the budget.

Basis for material differences between budget and actual amounts

It is general practice to deem a 10% deviation on operational revenue and expenditure versus the final budget as materialt

Explanations for material variances relating to the Statement of Financial Performance is set out as follows:

49. Budget differences (continued)

1. Service charges - The variance is attributed to impact that the ESKOM call on customers to use electricity more sparing has had on the general consumption. Other factors include the tariffs adjustments during the course of the year and the electricity theft and meter tampering.

2. Rental of facilities and equipment - There was an increase in rented facilities at the resort than anticipated.

3. Other Income - Variance is mainly due to write of of creditors balances.

4. Interest received - Interest from investment not budgeted for due increasing outstanding creditors and financial dificulties.

5. Licences or Permits - License and permits are dificult to budget as it is based on the frequency of unpredictable events .

6. Government grants & subsidies - Variance due to unspent grants withheld from allocation. Treasury withheld the municipality allocated and budgeted equitable share due to prior year's unspent grants, that resulted in the shortfall in the budgeted revenue.

7. Fines, Penalties and Forfeits - The variance is mainly due to the fact that some of the revenue line items budgeted for did not materialize as anticipated. These include fines and penalties.

8. Property rates - Variance due to exemptions granted to property owners, which was not included in the budget.

9. Personnel - Variance due to wages paid outside the payroll that were not bugdeted for.

10. Remuneration of councillors - The variance is due to a change in councillors.

11. Depreciation and amortisation - The variance is mainly due to a new asset register that has been brought with restated capital costs. Due to restatement of assets, depreciation values changed from prior year, and the budget was based on prior year's assets registers prior to the restatements.

12. Finance costs - The variance is due to interest levied on outstanding eskom invoices, and change in actuarial valuation.

13. Debt impairment - The variance is due to increase in debt impairment due to a significant increase in non-payment of debtors accounts.

14. Repairs and maintenance - The municipality experienced numerous unexpected breakdowns which required urgent interventions. Thus, increase the budgeted costs as anticipated.

15. Bulk purchases - The variance is due to an increase in Eskom Tarrifs, as approved by NERSA. NERSA approved 50% increase in Eskom electricity tarrifs, thus the municipality's cost of electricity was higher than anticipated.

16. Contracted Services - The variance is due to change in service providers compiling asset registers due to unsatisfactory in services rendered.

17. Transferes and subsidies - The variance is due to grants expenditure that has ben separately budgteted, yet the actual expenditure in the AFS is included in other AFS line items, i.e. EPWP expenses forms part of employee costs total.

18. General Expenses - The variance is due to cost cut measures, thus saving in certain expenditures. Due to financial constraints, the municipality had to reduce its costs and avoid avoidable expenditure.

19. Impairment loss - The varience is as a result that the municipality did not budget for impairment loss expense incurred in the year under review.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

50. Other financial assets

51. Other financial liabilities

52. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

53. Acquisitions with a view to its subsequent disposal

54. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.